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## **Accumulation of Origin Product Scenarios**

Final Report  
March 2005

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

**Data Page**

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## **Abstract**

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This report provides examples of how a Jordanian manufacturer might use to his advantage an origin-accumulation rule in order to qualify selected products for duty-free treatment under the Jordan-United States Free Trade Agreement. In addition, the report provides examples, again with reference to specific products, demonstrating a Jordanian manufacturer's use of the US-Singapore Integrated Sourcing Initiative, if that Initiative were extended to included exports under the JUSFTA. The products used in the scenarios include articles of jewelry and articles of pearl, and printed circuit board assemblies.

## **Abbreviations and Acronyms**

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FTA	free trade agreement
ISI	Integrated Sourcing Initiative
IT	information technology
ITA	Information Technology Agreement
JUSFTA	Jordan-US Free Trade Agreement
MFN	most-favored nation
NAFTA	North American Free Trade Agreement
PCA	printed circuit assembly
WTO	World Trade Organization

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## Executive Summary

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The purpose of this paper is to provide examples demonstrating the impact of different accumulation of origin scenarios with respect to specific products in the context of the Jordan-US Free Trade Agreement (JUSFTA). In addition, the paper provides an example, again with respect to a specific product, of the possible use of the US-Singapore FTA Integrated Sourcing Initiative (ISI), if the ISI were to be extended to the JUSFTA. It also includes spreadsheets with instructions and calculations on accumulation. Accumulation would allow Jordanian producers to count inputs from other US free trade agreement (FTA) countries, such as Bahrain, Morocco, or Israel, as if they were Jordanian-origin to qualify under the JUSFTA rules of origin.

Of the seven specific products chosen by the Ministry of Industry and Trade for this study, only two products (articles of jewelry and articles of pearl) were eligible for study.<sup>1</sup> The results of the analysis are as follows:

### *Jewelry and Articles of Pearl*

With accumulation, Jordan exporters potentially qualify jewelry exports to the United States for free rate of duty *even if* only finishing operations are done in Jordan. In fact, an advantage of accumulation of origin is that it can allow Jordan manufacturers to do tail-end processing or other minimal operations on pearls, stones or jewelry sourced from Bahrain, Morocco or Israel (for example) and still qualify the goods for a tariff preference. Without accumulation, such exports would be subject to full US duties.

### *ISI*

If the ISI were extended to Jordan, it should help Jordanian exporters meet the 35 percent domestic content requirement. That is, if the imports of electronics or electrical equipment imported into Jordan from Singapore can be considered “originating materials”, then the cost or value of those materials should be counted toward the JUSFTA 35 percent value-content requirement as if these materials were fully Jordanian origin.

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<sup>1</sup> The other five products --cash registers, compact discs, magnetic tapes, all other recorded media, and cellular phones— already enter duty-free into the United States and therefore do not need to comply with FTA origin rules.

## 1. Introduction

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The purpose of this paper is to provide examples demonstrating the impact of different accumulation of origin scenarios with respect to specific products in the context of the Jordan-US Free Trade Agreement (JUSFTA). In addition, the paper provides an example, again with respect to a specific product, of the possible use of the US-Singapore FTA Integrated Sourcing Initiative (ISI), if the ISI were to be extended to the JUSFTA.<sup>2</sup>

The JUSFTA rules of origin define the conditions that a Jordanian producer must fulfill to qualify his export for duty-free entry to the United States. In general, the Jordanian producer must demonstrate that the export is (1) a “product of” Jordan and (2) at least 35 percent of the value of the exported goods is attributable to Jordanian manufacturing operations or Jordan-produced parts and materials.

An accumulation rule should allow Jordanian producers to qualify more easily for these US tariff preferences. In place of Jordan-origin materials or production, accumulation would allow the producer to use inputs from countries operating under separate FTAs with the United States, such as Bahrain, Morocco, Israel or Singapore. An accumulation rule should consider these third-country inputs as if fully Jordanian-origin, both for purposes of qualifying the finished product as “product of” Jordan and meeting the 35 percent Jordan content requirement.

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<sup>2</sup> A discussion of issues related to Jordan’s accumulation of origin with other US FTA partners is set out in ‘Accumulation of Origin under the Jordan-United States Free Trade Agreement,’ prepared by the author and Jim Robertson for the AMIR Program, January, 2005.



## 2. FTA Tariff Advantage – Selected Products

Before analyzing whether accumulation of origin will assist Jordanian producers meet JUSFTA rules of origin, it should be determined whether the JUSFTA provides any tariff advantage (and therefore reason to comply with the rules of origin) for the selected products. The specific products and accumulation countries selected by the Ministry of Industry and Trade for evaluation are as follows:

1. **Cash registers**, incorporating parts or components from Israel, Morocco or Singapore;
2. **Article of jewelry**, incorporating molds from Israel or pearls from Bahrain or possibly these or other inputs from Morocco,
3. **Software development**, involving Israel, Singapore or Morocco,
4. **Cellular phones**, with accumulation with Israel and Singapore, , and
5. A “suitable example” of products from Chapters 84 or 85 under the **Integrated Sourcing Initiative** (ISI), involving inputs from Singapore

The JUSFTA does not provide a tariff advantage with respect to three of the five products listed. The normal US duty rate on **cash registers** and **cellular phones** is free. There is therefore no need to comply with FTA origin rules (and the attendant paperwork and record-keeping requirements) to export these products free of duty to the United States.

Product	US Tariff Category	US Normal Tariff Rate (2005)
<b>Cash Registers</b>	8470.50.00	FREE
<b>Articles of Jewelry</b> , precious metal or base metal clad with precious metal	7113	5% to 13.5%
<b>Articles of Pearl</b>	7116.10	3.3% to 5.5%
<b>CD (including computer software )</b>	8524.31	FREE
<b>Magnetic Tape (including software)</b>	8524.40	FREE
<b>All other recorded media (including software)</b>	8524.91	FREE
<b>Cellular Phones</b>	8525.20.90	FREE

**Software development** is a service and not a product subject to customs duties as such. However, the medium by which the software is physically delivered may be a product and therefore potentially dutiable under the US tariff law (*i.e.*, if shipped on compact discs, it would be considered a dutiable product; if electronically transmitted via the internet, it would not). In any event, the US normal duty rate applicable to such media is “Free”, as indicated in the table above. Moreover, under US rules for customs valuation, the dutiable value of such a product includes only the value of the carrier medium (which is relatively minor), and not the value of the software content. For that reason, software development, cash registers, and cellular phones are excluded from the accumulation examples. Accumulation examples are therefore provided for articles of jewelry and articles of pearl.

### 3. Accumulation Scenario

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Accumulation would allow Jordanian producers to count inputs from other US FTA countries (such as Bahrain, Morocco, or Israel) as if they were Jordanian-origin for purposes of qualifying under the US Jordan FTA rules of origin.

Under those rules, to qualify for duty-free treatment,

- (1) the article exported to the United States be a “product of” Jordan, and
- (2) the exported article must contain at least 35 percent Jordanian value.

Accordingly, in the examples below the impact of accumulation is indicated both in terms of assisting Jordanian producers to meet the “product of” rule and comply with the 35 percent value-content requirement.

As a short cut, the US NAFTA Marking Rules were used to define the relevant rules of origin for articles of jewelry and articles of pearl. As discussed in more detail in the previously-referenced paper on accumulation of origin prepared by O’Shea and Robertson, while the US NAFTA Marking Rules use a different (but clearer and more easily applied) language to define origin than the US-Jordan FTA “substantial transformation” test, in operation, the results are generally the same.

#### 3.1 Jewelry Origin Rule<sup>3</sup>

Generally, the country of origin of jewelry is the country where the jewelry is made, rather than the country from which the precious metals, stones, or pearls may be sourced. The exception to this general origin rule is a simple string of pearls (that is, without clasp or ornamental features). In that case, the origin of the article is the country from which the pearls are obtained.<sup>4</sup>

Product	Origin Rule	Impact
Articles of Pearl (Heading 7116)	A change to Heading 7116 from any other heading, except that pearls strung but without the addition of clasps or other ornamental features or stones shall have the origin of the pearls.	<ul style="list-style-type: none"><li>– Origin of a string of pearls (without clasp or other ornamental feature) is country of origin of pearls.</li><li>– Origin of other pearl jewelry, including string of pearls is if</li></ul>

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<sup>3</sup> Articles of jewelry containing pearls may be classified under one of two tariff headings, Heading 7113 and Heading 7116. If the article contains precious metal or metal clad with precious metal (other than as a minor constituent), then the product is classified under Heading 7113 as an “article of jewelry of precious metal or clad with precious metal.” An example of such an article is a necklace strung with gold beads and pearls. If the pearl article does not contain precious metal, or contains gold or silver or platinum only as a minor constituent, then it will be classified under Subheading 7116.10 as an “article of pearl.” For example, a pearl necklace with a gold hasp (the hasp is a minor constituent).

<sup>4</sup> The underlying principle here is that jewelry is the production of artists or artisans, and the artistic or artisan element of the article is what provides its value or essential character; therefore, the country of origin should be the country where that process takes place, rather than where the raw materials (gold, pearls, stones *etc.*) are sourced. However, stringing together pearls without more does not involve this element of the artisan or artist; accordingly, origin is the country of origin of the raw materials, the pearls.

Product	Origin Rule	Impact
		with clasps or other ornamental features, is the country where the jewelry is made (regardless of origin of the pearls).
Articles of Jewelry, made of precious metal or clad with precious metal (Heading 7113)	A change to subheadings 7113.11 to 7115.90 from any other subheading, including a subheading within that group.	– Origin of jewelry, including articles incorporating pearls, is the country where the jewelry is made (regardless of the origin of the pearls).

In scenarios 1, 2 and 3 below, the finished product is assumed to be a manufactured article of jewelry. In scenario 4, the finished product is assumed to be a string of pearls without clasp or ornamentation.

Scenario 2 demonstrates use of accumulation where only tail end processing is done in Jordan. As discussed in the aforementioned paper on accumulation of origin, if goods are produced in the accumulation partner country, and tail-end processing is done in Jordan, the finished good will qualify for US tariff preferences. However, the applicable US preferential rate will depend on the origin of the product, and the rules for determining this question will have to be negotiated. If the origin is Jordan, the JUSFTA tariff rate will apply. If the origin of the finished product is the accumulation partner (for example, Morocco), then the rate of duty under the US FTA with that country will apply. In any event, regardless of the country of origin, there will be a tariff benefit. For that reason, I simply indicated below whether the export qualifies as a “product of” the FTA region (Jordan and/or accumulation partner country).

### 3.2 Use of Accumulation to Qualify Jewelry as FTA Product

Scenarios		Supply Materials (i.e., pearls, stones, gold)	Supply Designs Molds	or	Manufacture Jewelry	Finishing Work (polish, QA, etc.)	Packing, Labeling	Qualifies as a FTA Product	
								With Accumulation	No Accumulation
1	Jordan				X	X	X	Yes	Yes
	Accumulation Partner	X							
	Other Country		X						
2	Jordan					X	X	Yes	No
	Accumulation Partner	X			X				
	Other Country		X						
3.	Jordan					X	X	No	No
	Accumulation Partner	X	X						
	Other Country				X				
4 (string pearls) of	Jordan				NA	X	X	Yes	No
	Accumulation Partner	X			NA				
	Other Country				NA				



Origin-Conferring Operation

### 3.3 Use of Accumulation to Qualify Jewelry under 35% Domestic Content Requirement

If the finished product qualifies as a product of Jordan – with or without accumulation – then it must be further determined whether 35 percent of the US import value of the product can be attributed to cost or value of Jordan-origin materials or direct costs of processing undertaken in Jordan.

The following Excel sheet (also included as Annex A) can be used as a guide to demonstrate the impact of using accumulation to assist Jordanian exporters of articles of jewelry comply with 35 percent value requirement. Directions for its use are included (double-click on the object and the Excel sheet will open).



Accumulation  
Calculator

### 3.4 Conclusions

With accumulation, Jordan exporters potentially qualify exports to the United States for free rate of duty *even if* only finishing operations are done in Jordan. In fact, an advantage of accumulation of origin is that it can allow Jordan manufacturers to do tail-end processing or other minimal operations on pearls, stones or jewelry sourced from Bahrain, Morocco or Israel (for example) and still qualify the goods for a tariff preference. Without accumulation, such exports would be subject to full US duties.

The country of origin of designs or molds used to manufacture jewelry will have no impact on whether the finished goods will be considered a “product of” Jordan or not. This is because the legal test for determining the origin of a product is based on the origin of materials that are actually incorporated in the product. On the other hand, the cost or value of designs or molds may be considered as a “direct cost of processing”, and counted toward the 35 percent value content requirement.

## **4. Integrated Sourcing Initiative Scenario**

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### **4.1 Introduction to ISI**

The Integrated Sourcing Initiative is unique to the US-Singapore FTA, and is an exception to the rules of origin under that agreement. It provides that a limited list of information technology (IT) products and components and medical devices will be considered “originating” simply if they are imported by the United States from Singapore (and vice versa).

The list of ISI products fall into the following broad industry categories:

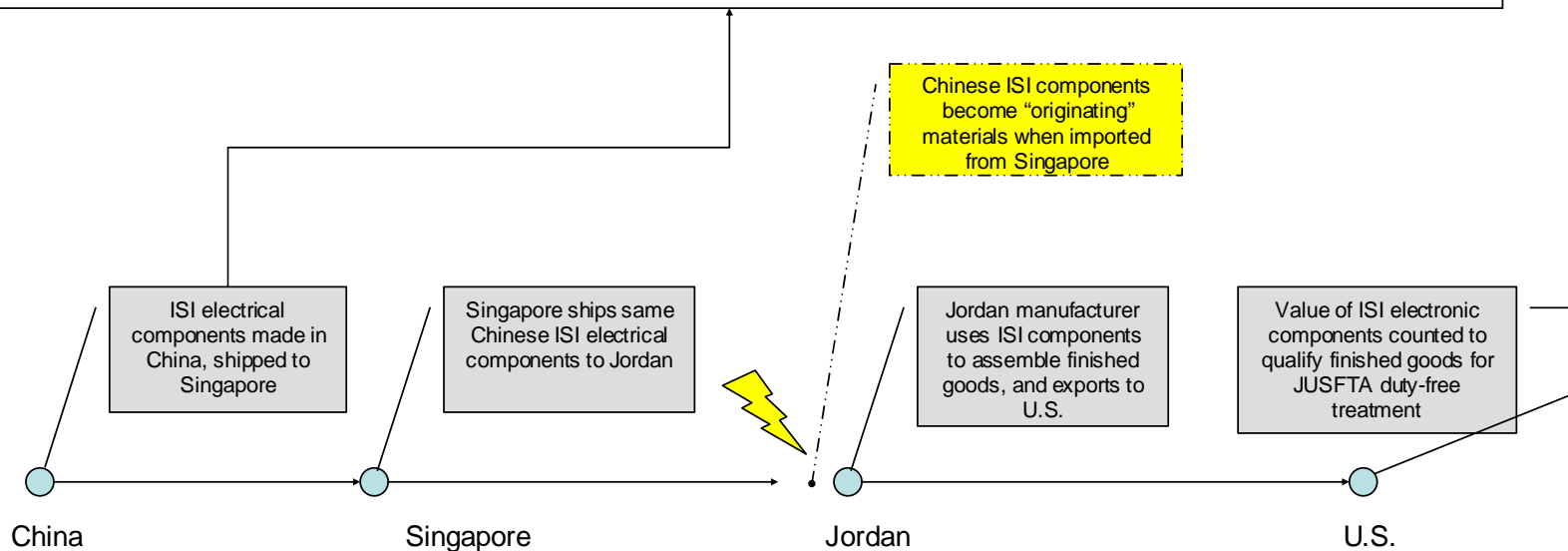
- electronics/electrical components,
- computers and calculating machines and parts,
- telecommunication devices and parts,
- software
- photocopiers and parts
- testing equipment
- semiconductor manufacturing equipment and parts
- medical equipment and parts

The following diagram illustrates the possible use of the ISI, if it were extended to Jordan. It depicts Jordan’s manufacture of products using electronics/electrical components inputs from Singapore. It assumes that Jordan would join the ISI with Singapore and the United States, and that (therefore) imports of ISI-list products from Singapore to Jordan would be considered “originating” for purposes of the JUSFTA rules of origin.

## Integrated Sourcing Initiative – Extended to Jordan

### ISI Eligible Electronics/Electrical Components

- Indicator panels incorporating liquid crystal devices (LCD) or light emitting diodes (LED) and parts of such apparatus
- Electrical capacitors, fixed, variable or adjustable (pre-set):
- Electrical resistors (including rheostats and potentiometers), other than heating resistors:
- Printed circuits
- Electronic AC switches consisting of optically coupled input and output circuits (Insulated thyristor AC switches)
- Electronic switches, including temperature protected electronic switches, consisting of a transistor and a logic chip (chip-on-chip technology) for a voltage not exceeding 1000 volts
- Electromechanical snap-action switches for a current not exceeding 11 amps
- Plugs and sockets for co-axial cables and printed circuits
- Connection and contact elements for wires and cables
- Diodes, transistors and similar semiconductor devices; photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes; mounted piezo-electric crystals:
- Electronic integrated circuits and micro-assemblies



## 4.2 Printed Circuit Assembly Origin Rule

To demonstrate the possible operation of the ISI if it were extended to Jordan, I have used the example of a printed circuit board assembly (PCA). PCAs that are used as parts of telecommunication apparatus or computers are duty-free under US normal tariff rates (this is the result of the WTO ITA agreement that also underlies the Integrated Sourcing Initiative).

However, PCAs that are intended for use as parts or components of other electronic products – such as parts of battery chargers, microwave ovens, or television and radio receivers – are generally subject to some amount of duty under US normal duties.<sup>5</sup> The scenario below assumes that the export is a PCA designed to be used for such purposes.

For tariff purposes, a PCA is defined as

“goods consisting of one or more printed circuits of heading 8534 with one or more active elements assembled thereon, with or without passive elements... “active elements” means diodes, transistors and similar semiconductor devices, whether or not photosensitive, of heading 8541, and integrated circuits and micro assemblies off heading 8542.”

In other words, a PCA is a printed circuit board with at least one active element (a transistor or an integrated circuit, for example).

Generally, the country of origin of a PCA is the country where it is assembled – that is, where the printed circuit board is combined with active components.<sup>6</sup> For example:

Product	Origin Rule	Impact
PCAs for Burglar and Fire Alarms and Similar Apparatus (Subheading 8531.90)	A change to subheading 8530.90 from any other heading.	Origin of the PCA is the country where it is assembled with active components (and thereby obtains the identify of a PCA, classified in subheading 8530.99)

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<sup>5</sup> This is a broad generalization. Whether a particular PCA is subject to US normal duty, and the amount applicable, depends upon the nature of the PCA – that is, what it is used for. For example, PCAs that are parts of products classified in Heading 8525 to 8528 (television receivers, radios, video monitors, television cameras, etc.) are subject to normal US duty rates ranging from Free to 4%.

<sup>6</sup> This follows from the tariff definition of a PCA. A bare printed circuit board only becomes a printed circuit *assembly* when active components are added to the board. The addition of active components provides the essential character of the PCA; therefore, the country where those components are added is considered the country of the PCA’s origin.



#### 4.4 Use of ISI to Qualify Printed Circuit Assembly as a “Product of” Jordan

Scenarios		Supply ISI electronics (i.e., transistors, printed circuits, integrated circuits, etc.)	Assemble active components to printed circuit	Finishing Work (testing, QA, etc.)	Packing, Labeling	Qualifies as “product of” Jordan	
						With ISI	No ISI
1	Jordan		X	X	X	Yes	Yes
	Singapore	X					
	Other Country	X					
2	Jordan			X	X	No	No
	Singapore	X					
	Other Country		X				
3.	Jordan	X		X	X	No	No
	Singapore		X				
	Other Country						



Origin-Conferring Operation

As the table above indicates, the ISI will not help Jordanian producers meet the “product of” requirements of the JUSFTA rules of origin, at least with respect to PCAs in this scenario.

The ISI may, however, offer real advantages to Jordan manufacturers in meeting the second major element of the JUSFTA origin rules, the 35 percent value content requirement.

#### **4.5 Use of ISI to Qualify Printed Circuit Assembly under 35% Domestic Content Requirement**

The fact that a product exported to the United States can be shown to be a “product of” Jordan is not enough to obtain duty free treatment. It must also be shown that 35 percent of the US import value of the product is attributed to cost or value of Jordan-origin materials or direct costs of processing undertaken in Jordan.

The following Excel sheet (also included as Annex B) can be used to demonstrate the impact of using ISI to assist Jordanian exporters meet the 35 percent value requirement. Directions for its use are included (double-click on the object and the Excel sheet will open). Again, for purposes of demonstration only, I have assumed the product exported from Jordan is a printed circuit assembly, and that the parts and components imported from Singapore are ISI-listed components only.



ISI Calculator

#### **4.6 Conclusions**

If the ISI were extended to Jordan, it should help Jordanian exporters meet that 35 percent domestic content requirement. That is, if the imports of electronics or electrical equipment imported into Jordan from Singapore can be considered “originating materials”, then the cost or value of those materials should be counted toward the JUSFTA 35 percent value-content requirement as if these materials were fully Jordanian origin.<sup>7</sup>

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<sup>7</sup> I say “should” and can’t be definitive, because there are some technical legal issues in applying the ISI in the context of the JUSFTA that would have to be worked out in negotiation. For example, it is not clear whether or how the usual “double substantial transformation rule” would apply to ISI parts or components imported from Singapore.

## **Annex A: Accumulation Calculator**

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**Annex B: ISI Calculator**

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